

<b>TRANSMITTAL SLIP</b>		DATE <b>7 SEP 1982</b>	
TO: <b>SA/IA -</b>			
ROOM NO.	BUILDING		
REMARKS:			
FROM:			
ROOM NO.	BUILDING		EXTENSION

FORM NO. 241  
1 FEB 55REPLACES FORM 36-8  
WHICH MAY BE USED.

(47)

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**THE DIRECTOR OF CENTRAL INTELLIGENCE**

WASHINGTON, D.C. 20505

**National Intelligence Council**

DDI #7226-82  
7 September 1982

MEMORANDUM FOR: Director of Central Intelligence

FROM: Maurice C. Ernst  
National Intelligence Officer for Economics

SUBJECT: Background Papers for PEPAB

1. Attached is some material for you on the international financial issue that you may want to read before the PEPAB meeting. I particularly recommend [ ] article on the LDC cash flow crisis, which does a good job showing how the big recent increase in LDC short-term debt has greatly increased their vulnerability to a weakening of bankers' confidence. When confidence flags, the relevant consideration is not the traditional debt service ratio on long-term debt, but rather the total amount of debt coming due, plus interest.

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2. Walter Wriston's piece on international lending appears to me a bit too sanguine. It largely ignores the entire issue of systemic risk. Moreover, it does not consider the short-term debt problem, which, together with the big increase in interest rates, is the main source of LDC difficulties in the past two years.

3. [ ] drafting our own paper, but has little in shape to show you at this time. I have attached some hypothetical scenarios for financial panic [ ] prepared for the interagency study chaired by Treasury that is also under way. These are admittedly extreme cases, but some, in particular debt repudiation by Argentina, or as part of a broader borrowers' revolt, are within the realm of possibility.

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[ ]  
Maurice C. Ernst

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Attachments,  
As stated

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DCI:NI0/Econ

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